

## **A Self-Regulating Contract Environment**

By Susan J. Harvey, 2003

A self-regulating contract infers a set of contract conditions that, left to the ingenuity of the contractor, incentivizes performance to achieve results above that which is expected. It distinctly does not mean that the government abandon its quality assurance and oversight function; it most likely places a heavier burden on the government to keep abreast of what is going on so that the necessary revisions can be made to work specifications to further enhance future performance. A self-regulating contract environment assumes that the contractor is positively influenced by the incentives built into the work specifications and will diligently work to exceed the expectations of the customer and, concurrently, maximize revenue and profit. Over time in a successful self-regulating environment a degree of trust and confidence will be forged between the contractor and government that will compound the effects of a mutually respected business relationship.

### **A Model Approach to Creating A Self-Regulating Performance-Based Service Contract**

Recognizing that nothing worthwhile is easy, a well-constructed contract statement of work requires a complete understanding of the work itself, full knowledge of achievable results, a strong hand to move the requirement through the contracting process, a rock-hard discipline to enforce contract standards, and a vision to see the value of continued improvement.

How to establish a successful self-regulating performance-based contract effort.

- Tailor a plan that quantifies results for the expected output for each major work area or function covered by the contract. Regardless of whether your contract covers a single work function or many, specifications should clearly address expected outcomes in a way that there should be no doubt as to what constitutes success. Once that is established, incentives should be provided to encourage the contractor to exceed minimally acceptable results. Expected outputs should be periodically measured during the contract performance period so that both parties to the contract understand what is working and what is not working, what extra effort is needed for success, and what changes must be made to turn around a failing operation.
- Ensure your chain of command is fully on board with your plan. It is not simply enough to reassure your superior in the chain of command that you have things under control. The successful manager will review contract objectives with the leadership and affect buy-in at the appropriate level to ensure consistency with higher-level objectives. There is simply no substitute for

keeping the boss informed and knowledgeable about your operation when it comes time for budget cuts or reallocation of resources.

- Execute smartly. The successful contract quality assurance plan will be tough, fair, complete, and promote self-regulation so that both parties will know where they stand at any time during the contract period and, more importantly, what is required to exceed government expectations.

A six-step approach is suggested to get started on a self-regulating performance-based service contract.

- Identify tasks and results to be achieved. Get your functional experts together to decide the really important mission critical results you want to achieve, rank order them in priority order and assign heavier weights to those at the top of the priority list. It is all right to have only one item on the list if that is all that is required for success. The important thing is to focus on the results that constitute success or failure. Stay far away from assessing process, or, the “how to do it” part of the effort. The focus should be on the required result because in the final analysis you don’t really care how the function is performed as long as legalities and regulatory protocols are observed. Let the performer decide how best to achieve the results. You will find that the properly incentivized contractor will figure out how to get the expected results, and to exceed them if possible.
- Establish performance standards for each task. Set the bar high for the minimally expected results that are wanted. Probably a good going in objective would be the results that are expected by the command. Then, ratchet the bar up in a step fashion to incentivize the contractor to exceed the minimum. The highest performance standard should exceed the best results that have ever been achieved for that function. You will be surprised at how well the smart performer can do if left to his or her own execution plan.
- Achieve buy-in from performers. Before issuing the contract to the winning bidder be sure that all of the performance standards are completely understood and accepted by all competitors. Offer an opportunity for bidders to describe their own plan to execute the specifications of the contract and then grade them on feasibility and attainability of their plan as part of the contract evaluation process. Your winning bidder should present an innovative, workable plan that will exceed expected results.
- Require periodic evaluation of performance against the standards. Include a regular evaluation schedule in the contract and then adhere to it. Hold the contractor to the standards established in the contract and do not deviate from the evaluation plan for the basic term of the contract. Provide an opportunity to adjust evaluation factors after the first contract period if there is

some doubt about the achievability of the plan or unexpected events change the scope of the contract.

- Quantify a reward system for exceeding standards. Rewards can take many forms. In time and material or cost plus fixed fee environments, providing incentives to add to the scope of the contract is often an effective way to inspire success. After all, why not add requirements to a successful contract. The government gets more work done by a good performer and the contractor gets more income from added work. After all, in the business world, more work is viewed as a plus since it offers more opportunity to build staff and income.
- Provide an adjustment procedure to modify results and standards for each option period of the contract. As the manager gains proficiency in identifying outcomes, writing specifications, and evaluating performance, it is a good idea to create a means to periodically adjust outcomes and standards to hasten the continual improvement process. After all, if improvements can be made from year to year, why not month to month or week to week? The prudent manager will explore the feasibility envelope to get fastest and best results for the government.